

## Message Text

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R 230156Z JAN 75

FM SECSTATE WASHDC

TO AMEMBASSY MANILA

C O N F I D E N T I A L STATE 015841

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LIMDIS

E.O. 11652: GDS

TAGS: EGEN, ETRD, RP

SUBJECT: ECONOMIC NEGOTIATIONS AND TRADE PREFERENCES

REF: A. MANILA 96

B. STATE 276469

C. STATE 268827

D. MANILA 199

1. WELCOME OPPORTUNITY FOR DISCUSSION OF ECONOMIC ISSUES  
OFFERED BY YOUR INTENDED MEETING WITH MARCOS, (REF A).  
DEPARTMENT WILL BE INTERESTED TO HEAR OF HIS COMMENTS, AND  
WE HOPE THEY CAN BE TRANSMITTED IN MESSAGE NOT LIMITED TO  
STATE DISTRIBUTION.

2. OUR OVERALL STRATEGY TOWARD ECONOMIC NEGOTIATIONS WITH  
PHILIPPINES HAS NOT ALTERED. WE CONTINUE TO BELIEVE THAT  
APPROACH BASED ON MFN TARIFF REDUCTIONS ON PRODUCTS OF  
SPECIAL INTEREST TO THE PHILIPPINES OFFERS SIGNIFICANT  
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BENEFITS TO BOTH SIDES. WE ALSO EXPECT PHILIPPINES TO

BENEFIT FROM GSP. HOWEVER, WE EXPECT TO BE ABLE TO OFFER MFN TARIFF CUTS ON PRODUCTS WHICH WILL LIKELY NOT BE ELIGIBLE FOR GSP.

3. WE RECOGNIZE THAT GOP LIKELY TO VIEW ALL PENDING ECONOMIC ISSUES AS CONNECTED WITH NEGOTIATIONS, BUT HOPE WE CAN KEEP SEPARATE ISSUES LIKE PAN AM CARGO RIGHTS AND COTTON CONTRACTS, WHERE WE ALREADY HAVE AGREEMENTS THAT WE EXPECT PHILIPPINES TO HONOR; WE DO NOT WANT TO BUY THE SAME HORSE TWICE.

4. APPRECIATE EMBASSY'S CONCERN FOR IMPACT OF GSP LIST ON PHILIPPINES AND HAVE BEEN CONSCIOUS OF PHILIPPINE CONCERNS IN PREPARING IT. INTER-AGENCY DISCUSSIONS HAVE ABOUT BEEN COMPLETED, BUT THE LIST WILL NOT BE MADE PUBLIC UNTIL IT IS SENT TO THE INTERNATIONAL TRADE COMMISSION (PROBABLY LATE IN JANUARY.) FOLLOWING IS PROVIDED TO EMBASSY, FOR ITS OWN INFORMATION ONLY, IN ESTIMATING EFFECT OF LIST IN OUR NEGOTIATIONS:

A. MANUFACTURED ITEMS - ALL ITEMS LISTED IN CHAPTERS 2-99 OF BRUSSELS TARIFF NOMENCLATURE WOULD BE ON LIST, EXCEPT FOR TEXTILE AND APPAREL ARTICLES, FOOTWEAR, SOME PRODUCTS OF STEEL, WATCHES, AND ITEMS SUBJECT TO IMPORT RELIEF OR NATIONAL SECURITY MEASURES. GSP LIST WOULD THUS INCLUDE ITEMS OF PHILIPPINE INTEREST SUCH AS PHILIPPINE MAHOGANY LUMBER, VENEER, AND PLYWOOD. LAW REQUIRES EXCLUSION OF "IMPORT SENSITIVE" GLASSWARE AND ELECTRONIC ITEMS. ADMINISTRATION PLANS TO REFER ALL GLASSWARE AND ELECTRONIC ITEMS TO ITC.

B. PRIMARY INDUSTRIAL PRODUCTS - ABOUT 175 ITEMS IN THIS SECTION OF LIST WOULD INCLUDE ABACA, RAMIE, NUMEROUS METALS AND ORES.

C. AGRICULTURAL AND FISHERY PRODUCTS - THIS LIST OF OVER 200 ITEMS WOULD INCLUDE SUGAR, COCONUT MEAT AND DESSICATED COCONUT, NUMEROUS TROPICAL FRUITS AND FRUIT PRODUCTS. IT WOULD NOT INCLUDE, HOWEVER, COCONUT OIL, CANNED PINEAPPLE, OR PINEAPPLE JUICE.

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5. A LIST HAS BEEN PUBLISHED, IN FEDERAL REGISTER FOR JANUARY 14, OF TARIFF ITEMS ON WHICH DUTIES CAN BE ELIMINATED IN TRADE NEGOTIATIONS, I.E. ITEMS WITH AD VALOREM DUTY OF LESS THAN FIVE PER CENT. THIS LIST (COPY POUCHED) DOES INCLUDE COCONUT OIL, SO WE MAY HAVE A MEANS OF DEALING WITH ONE POSSIBLE OBSTACLE TO OUR PLANNED NEGOTIATIONS. MUST BEAR IN MIND, HOWEVER, THAT ADMINIS-

TRATION IS BARRED BY LAW FROM MAKING ANY FORMAL OFFER TO REDUCE ANY OF THESE TARIFFS UNTIL INTERNATIONAL TRADE COMMISSION (ITC) HAS COMPLETED STUDY OF THE EFFECTS OF SUCH TARIFF REDUCTION. WE EXPECT COMISSION STUDY TO CONSUME FULL SIX MONTHS PERMITTED BY LAW. HOWEVER, WE ARE EXPLORING POSSIBILITIES OF OBTAINING EARLY RESPONSE FROM COMMISSION ON PHILIPPINE ITEMS ONLY, BUT ARE INFORMED THEY WILL PROBABLY NOT BE WILLING TO MAKE ANY RESPONSE UNTIL PUBLIC HEARINGS ARE COMPLETED, NOW SCHEDULED TO RUN THROUGH LATE APRIL.

6. WITH RESPECT TO WAIVER OF GSP COMPETITIVE NEED LIMITS, EMBASSY IS AWARE (REF C) THAT ADMINISTRATION DID NOT SUPPORT LANGUAGE IN SECTION 504 OF TRADE ACT WHICH WOULD RESTRICT WAIVER TO PHILIPPINES ALONE. NOW IT IS ENACTED, WE MUST STILL BEAR IN MIND THAT USE OF THIS AUTHORITY TO WAIVE THE CEILINGS FOR THE PHILIPPINES WOULD BE IN CONFLICT WITH BROAD U.S. POLICY OBJECTIVES, WOULD RAISE PROBLEMS WITH MANY OTHER COUNTRIES, AND COULD AFFECT IMPORTANT U.S. DOMESTIC INTERESTS. INCLUSION IN GSP, FOR EXAMPLE, OF PLYWOOD IS INCREASINGLY SENSITIVE ISSUE BECAUSE OF CONTINUING SLUMP IN U.S. BUILDING INDUSTRY; EXISTENCE OF POSSIBILITY OF WAIVING THE CEILINGS FOR THE PHILIPPINES MAY INFLUENCE ITC RECOMMENDATION WITH RESPECT TO IMPORT SENSITIVITY OF PLYWOOD AND OTHER ITEMS OF INTEREST TO PHILIPPINES. THIS COULD LEAD TO ITS EXCLUSION FROM GSP.

7. THERE ARE OTHER FUNDAMENTAL CONSIDERATIONS. A BLANKET WAIVER OF COMPETITIVE NEED LIMITS ON GSP WOULD RESULT IN PREFERENCES FAR IN EXCESS OF THE LATTER STAGES OF LAUREL-LANGLEY, REVERSING THE TRANSITIONAL PROCESS THAT AGREEMENT WAS DESIGNED TO ACCOMPLISH AND REVIVING IN PART THE ANACHRONISTIC SITUATION THAT WAS A SOURCE OF TROUBLE IN U.S./PHILIPPINE RELATIONS IN THE 1960'S. AT THE SAME TIME  
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IT SHOULD NOT BE FORGOTTEN THAT GSP IS INTENDED TO BE A TEMPORARY ARRANGEMENT, EXPIRING AFTER TEN YEARS, AND IF TOO MUCH OF OUR RELATIONSHIP WERE TO BE BASED ON IT, WE COULD FACE NEED FOR ANOTHER BROADRANGING REVIEW OF OUR ECONOMIC TIES IN ANOTHER TEN YEARS AND MIGHT FIND THAT WE HAD POSTPONED RATHER THAN RESOLVED MANY PROBLEMS.

8. IN THESE CIRCUMSTANCES, WHILE WE BY NO MEANS RULE OUT A WAIVER, IT WOULD HAVE TO BE USED NOT ONLY ON THE FORMAL CONDITIONS SET FORTH IN THE LAW BUT ALSO WE MUST CLEARLY ESTABLISH THAT SUCH A WAIVER WOULD IN FACT BE IN THE OVER-ALL NATIONAL INTEREST.

9. AS REGARDS GOP IMPRESSIONS OF U.S. POSITION ON PREFERENTIAL TREATMENT, THERE HAVE BEEN NO DEPARTMENTAL

DISCUSSIONS WITH GOP OFFICIALS HERE OF PROSPECTS FOR  
WAIVER OF GSP CEILINGS, EXCEPT FOR BRIEF ACKNOWLEDGEMENT  
IN CONVERSATION REPORTED REF B THAT A WAIVER PROVISION  
EXISTS IN TRADE ACT WHICH COULD BENEFIT THE PHILIPPINES.  
DISCUSSION AT THAT TIME DID FOCUS TO SOME EXTENT ON  
SEPARATE ISSUE OF DIFFICULTIES U.S. WOULD HAVE IN ENTERING  
INTO BILATERAL PREFERENTIAL AGREEMENT ON SUPPLY OF COMMO-  
DITIES, BUT AT NO TIME DID WE SPECULATE ON WHETHER OR HOW  
WAIVER PROVISION WOULD BE APPLIED. ALTHOUGH SOME GOP  
OFFICIALS NO DOUBT GENUINELY MISUNDERSTAND OUR POSITION,  
WOULD ASSUME SOME COULD BE DELIBERATELY MISCONSTRUING IT  
FOR TACTICAL EFFECT.

10. FOR THESE REASONS WE BELIEVE IT WOULD BE A MISTAKE  
AT THIS TIME TO GIVE GOP ANY ENCOURAGEMENT REGARDING PRO-  
SPECTS FOR WAIVER OF GSP. YOU SHOULD CONTINUE TO ENCOUR-  
AGE GOP TO FOCUS ON BILATERAL TRADE NEGOTIATIONS RATHER  
THAN SPECIAL GSP TREATMENT. EMBASSY SHOULD CONTINUE TO  
POINT OUT THAT WE STILL VIEW RELATIONS WITH PHILIPPINES  
AS SPECIAL IN NATURE AND ARE MAKING ALL POSSIBLE EFFORTS,  
CONSISTENT WITH OUR OVERALL POLICIES AND INTERESTS, TO  
CONTINUE THOSE RELATIONS ON A STABLE BASIS. IF PRESSED  
YOU CAN SAY WASHINGTON IS STILL EXAMINING LEGISLATION IN  
ORDER TO DETERMINE HOW IT CAN OR SHOULD BE USED.

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